

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----282056 078272 /72

P R 281521Z FEB 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC PRIORITY 2223
INFO AMEMBASSY ABU DHABI
AMEMBASSY BONN
AMEMBASSY DOHA
AMEMBASSY KHARTOUM
AMEMBASSY TEHRAN
AMEMBASSY TOKYO

C O N F I D E N T I A L CAIRO 3543

EXDIS

E.O. 11652: GDS
TAGS: USEGJC EAID IMF
SUBJ: ASSISTANCE TO EGYPT: GOE MINECON COMMENTS RE IMF
AGREEMENT

REF: CAIRO 3469

1. AMBASSADOR MET THIS MORNING WITH MINECON HAMED EL
SAYEH AT LATTERS REQUEST. ALTHOUGH SAYEH'S PURPOSE
WAS TO DISCUSS UPCOMING TRIP TO US WHICH DEPPRIMIN
KAISSOUNI AND HE WILL MAKE, AMBASSADOR HAD OPPORTUNITY
ASK ABOUT REPORTED IMF AGREEMENT.

2. SAYEH CLAIMED AGREEMENT HAD INDEED BEEN REACHED
DURING RECENT GUNTER VISIT, ALTHOUGH FEW DETAILS MUST
YET BE WORKED OUT. ASKED ABOUT \$600 MILLION FOUR-YEAR
AGREEMENT METNIONED IN TODAY'S PRESS REPORTS, SAYEH
ASSERTED EXTENDED FUND FACILITY AMOUNTING TO \$450 MILLION,
IS SCHEDULED TO BEGIN IN 1978. IN ORDER TO OBTAIN FACILITY
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THIS YEAR, GOE WOULD HAVE HAD TO COMMIT ITSELF TO
ESTABLISH UNITARY EXCHANGE RATE AT BEGINNING OF 1978.
JANUARY RIOTS MADE IT CLEAR THAT GOE CANNOT AFFORD
TO MOVE THAT QUICKLY. ACCORDING SAYEH, IT HOPES TO BE
ABLE TO DO SO IN 1978. MEANWHILE \$150 MILLION
STANDBY AGREEMENT HAD BEEN TENTATIVELY AGREED UPON
FOR THIS YEAR. DEPPRIMIN KAISSOUNI WILL CARRY TO

WASHINGTON A LETTER OF INTENT SIGNED BY PRIMIN SALEM, WHICH SHOULD PERMIT FINALIZATION OF AGREEMENT BY MARCH 8 OR 9. AGREEMENT COULD GO INTO EFFECT MARCH 16.

3. GUNTER, SAYEH SAID, HAD ALSO TENTATIVELY AGREED TO 300 MILLION EGYPTIAN POUND STABILIZATION FUND THROUGH MARCH 1978. SAYEH ASSERTED THAT, SINCE 1976, GOE HAS MOVED IMPORTS WORTH APPROXIMATELY ONE BILLION EGYPTIAN POUNDS TO THE INCENTIVE RATE. OF THIS 400 MILLION EGYPTIAN POUNDS ARE FOR CAPITAL GOODS IMPORTS. THESE, HE NOTED, WILL NOT HAVE TO BE SUPPORTED THROUGH THE STABILIZATION FUND MECHANISM SINCE THEY DEPARTICATE OVER 20-30 YEARS. 150 MILLION EGYPTIAN POUNDS OF STABILIZATION FUND WILL BE USED AS SUPPORT FOR ALL SUPPLY MATERIALS IMPORTED. REMAINING 150 MILLION EGYPTIAN POUNDS WILL BE USED TO STABILIZE SOME INDUSTRIAL GOODS, ESPECIALLY THOSE WHICH ARE CONSUMED BY THE PUBLIC. SEVEN BASIS COMMODITIES, VEGETABLE OIL, WHEAT, WHEAT FLOUR, TEA, SUGAR, AND NON-PROJECT OIL IMPORTS REQUIRED BY POL SECTOR AND ONE OTHER ITEM WHICH WE COULD NOT RECALL WILL REMAIN AT OFFICIAL RATE.

4. ACCORDING TO SAYEH THERE IS STILL ONE OUTSTANDING PROBLEM WITH IMF. HE DESCRIBED AS "TECHNICAL MATTER". CUNTER, HE NOTED, WANTS GOE TO CHANGE ALL IMF ACCOUNTS WITH THE CENTRAL BANK TO THE INCENTIVE RATE. THIS WOULD MEAN AN 80 PERCENT INCREASE IN COSTS. IT WOULD INVOLVE ISSUING NON-INTEREST BEARING BONDS IN IMF'S NAME. GOE BELIEVES IT CANNOT DO SO FOR TWO REASONS: CONFIDENTIAL

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(A) PARLIAMENTARY APPROVAL WOULD BE REQUIRED AND, AFTER RECENT "BATTLE OF THE BUDGET" IN PA NO ONE IS ANXIOUS BEARD PARLIAMENT AGAIN ON FINANCIAL MATTER OF THIS SORT; (B) IT WOULD GENERATE DEMAND FROM OTHER INSTITUTIONS FOR SIMILAR TREATMENT. DESPITE GOE REQUEST THAT IMF BE "LENIENT" ON THIS MATTER, GUNTER HAS GIVEN GOE DEADLINE OF NEXT JUNE TO TAKE REQUIRED ACTION. KAISSOUNI INTENDS ASK IMF DIRECTOR WITTEVEEN TO RECONSIDER DEMAND.

5. SAYEH SAID KAISSOUNI AND HE PLAN MEET WITH IMF AND IBRD OFFICIAL NEXT WEEK. BY THAT TIME NECESSARY IMF CLEARANCES SHOULD, HOPEFULLY, HAVE BEEN OBTAINED BY GUNTER. GOE ANXIOUS THAT IMF AGREEMENT BE CONCLUDED WELL BEFORE IBRD CONSULTATIVE GROUP MEETING.

6. SAYEH DID NOT ASK FOR ANY USG ASSISTANCE IN THIS MATTER. AMBASSADOR EXPRESSED GRATIFICATION TO BOTH SAYEH AND KAISSOUNI (WITH WHOM HE SPOKE BY PHONE) AT

PROGRESS APPARENTLY MADE WITH IMF TOWARD ARRIVING AT
MUTUALLY ACCEPTABLE AGREEMENT. HE AGAIN URGED GOE DO
UTMOST TO INSURE THAT AN AGREEMENT BE CONCLUDED DURING
UPCOMING KAISSOUNI VISIT.

7. COMMENT: WE HAVE IMPRESSION SAYEH AND GOE ARE
PERHAPS SOMEWHAT OPTIMISTIC ON ISSUES OF SPEED WITH
WHICH IMF MONIES WILL BECOME AVAILABLE (MARCH 16 MAY
BE A BIT EARLY FOR STANDY TO GO INTO EFFECT),
REQUIREMENTS FOR AN EXTENDED FUND FACILITY (UNITARY
EXCHANGE RATE, WE UNDERSTAND, IS ONLY ONE OF STEPS THAT
MUST BE TAKEN) AND ABILITY TO WRING FURTHER CONCESSIONS
OUT OF FUND (GUNTER HAS GONE ABOUT AS FAR AS IMF IS
WILLING TO GO). KAISSOUNI AND HIS ECONOMIC GROUP HAVE
NONETHELESS TAKEN A MAJOR STEP IN MOVING EGYPT INTO
THE BEGINNINGS OF A NEW ECONOMIC ERA AND HAVE EVERY
REASON TO BE EAGER TO MOVE AHEAD. THEY HAVE HAD A SHORT
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BUT HARD STRUGGLE, WITH MUCH DIFFICULT WORK YET TO BE
DONE.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, AGREEMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 28-Feb-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977CAIRO03543
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770068-1263
Format: TEL
From: CAIRO
Handling Restrictions:
Image Path:
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Legacy Key: link1977/newtext/t1977024/aaaaadhx.tel
Line Count: 142
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b32e4bc6-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 77 CAIRO 3469
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 24-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3315542
Secure: OPEN
Status: NATIVE
Subject: ASSISTANCE TO EGYPT: GOE MINECON COMMENTS RE IMF AGREEMENT
TAGS: EAID, EG, USEGJC, IMF
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/b32e4bc6-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009